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Canada. Office of the Auditor General.
Review of major recommendations of
the Grace Commission.

(Discussion paper no. 31)

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Office of the
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du Canada

DISCUSSION PAPER NO. 31

**REVIEW OF MAJOR RECOMMENDATIONS
OF THE GRACE COMMISSION**

By John O'Brien

and Paul Ward

June 1984

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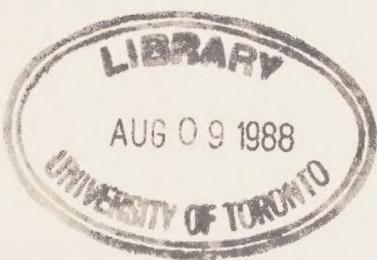
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Review of Major Recommendations
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TABLE OF CONTENTS

| | <u>Page</u> |
|----------------------------|-------------|
| Introduction | I-1 |
| General Conclusions | |
| National Defence | |
| - Area Summary | |
| - Detailed Recommendations | |
| Social Development | |
| - Area Summary | |
| - Detailed Recommendations | |
| Economic Development | |
| - Area Summary | |
| - Detailed Recommendations | |
| Government Operations | |
| - Area Summary | |
| - Detailed Recommendations | |

REVIEW OF GRACE COMMISSION PROPOSALS

POSSIBLE APPLICATION TO CANADA

Introduction

The purpose of this document is to summarize the major cost saving recommendations of the President's Private Sector Survey on Cost Control (PPSSCC). The recommendations are often applicable to Canadian government departments and agencies. The suggestions of the Commission may provide lines of audit enquiry for comprehensive audits.

The Commission, known as the Grace Commission after its chairman, made a total of 2,478 recommendations that it claims would result in net savings, and revenue increases of \$424.4 billion over 3 years. An additional cash flow saving of \$65.5 billion over 3 years is also expected.

The basis of our review is a joint Congressional Budget Office (CBO) /General Accounting Office (GAO) analysis of the major Grace Commission recommendations. The CBO/GAO analysis focuses on only 400 recommendations but those recommendations form 90 per cent of the savings estimated by the Grace Commission. The criteria for inclusion in the CBO/GAO study was that a recommendation should result in estimated savings of \$1 billion or more over three years.

The results of the GAO/CBO analysis are less optimistic than the Grace Commission. For these 400 recommendations the GAO/CBO concludes that there

are potential 3 year savings of \$90 billion or approximately \$200 billion less than the Grace estimates. In addition the recommendations that account for the bulk of projected cost savings require significant changes in government policy or legislation. Recommendations involving management improvements made up the majority of the recommendations but only a minority of cost savings.

The GAO/CBO summary is grouped into five policy areas - National Defence, Entitlement and Other Mandatory Spending Programs, Non-Defence Discretionary Spending and Offsetting Receipts, Federal Civilian Compensation and Work Force Management and Revenues. In order to relate the recommendations to the Canadian government, this paper has been organized along envelope lines. For each envelope there is a brief overall summary of the recommendations followed by a more detailed description. In the detailed description page references are given to the Congressional Budget Office/General Accounting Office study entitled "Analysis of the Grace Commission's Major Proposals for Cost Control" for those interested in more details on specific recommendations.

General Conclusions

The most obvious conclusion from this review of the Grace Commission recommendations is that the projected savings are often wildly optimistic. Since the Commission did not follow rigorous standards of evidence their estimates are often "best guesses" of the potential savings. In some cases these estimates are nothing more than a flat percentage of a program's expenditure with no further explanation of the rationale.

Another general observation is that the Commission has not fully explored the effects of its recommendations on the recipients or beneficiaries of programs. For example the consequences on military preparedness and effectiveness of the recommendations is not known. In many cases the recommendations will have a significant negative impact on people near the poverty line.

Many of the highest impact recommendations will require legislation or changes of long standing policies. Four recommendations in this category - reduced military retirement benefits, reduced civil service retirement benefits, limiting growth in health care costs to the GNP and taxing federal subsidies account for \$145.9 billion in estimated savings according to the Commission. These items can be expected to generate a great deal of controversy among the affected parties. It is questionable if the political will exists to implement these changes.

Despite these significant limitations, many of the Commission's recommendations have valid and appropriate elements and could result in significant savings. Even the highly controversial items present a basis for debate and could represent the initial basis of a solution.

Area Summary

National Defence

The Grace Commission recommendations affecting National Defence fall into three categories:

- reduced benefits to military personnel;
- changes in contracting or procurement methods; and
- changes in management systems or procedures.

The recommendations affecting benefits to military personnel include revision of military retirement pay, changes in the operations of military commissaries, reduced use of civilian health care services for military personnel and recovery of medical costs from private insurers. The Grace Commission estimates three year savings from these recommendations at \$33 billion. Largely because the Grace Commission included the accrued savings of reduced retirement pay, the CBO/GAO estimate of savings is considerably lower at \$3 billion.

While the GAO believes that the recommendations have some validity, they will likely affect recruitment and retention of personnel. The health care recommendations may result in reduced quality of care for retirees and dependents.

There are many recommendations affecting military contracting and procurement. These are revise contract financing policy, increase use of multi-year procurement, establish and maintain efficient weapons production rates, increase use of common parts and standards, increase dual-sourcing of weapons programs, improve army weapons systems acquisition, improve procurement process management and establish a procurement audit service for weapons acquisition. In all the Grace Commission estimates that these recommendations would save \$49.3 billion over three years. The CBO/GAO study found that only the revision of contract financing could be estimated (\$6 billion). The impact of the remaining recommendations could not be estimated.

Many of these recommendations would have some applicability but because Canadian procurement is much smaller the impact would be less.

The changes in management systems and practices recommended are to consolidate or close bases, improve automated inventory management, change physical inventory management, improve management of laboratories, improve long-range planning and management for research and development, reduce oversight of contractors' research and development costs and revise financial accounting and management. The Commission places three year savings for these recommendations at \$25.3 billion. The GAO/CBO found all of these recommendations too vague to estimate potential savings.

Overall, the Canadian Department of National Defence undertakes many of the functions of the United States armed forces but on a much smaller scale. Consequently, many of these recommendations could be valid in Canada.

Review of Major Grace Commission Recommendations – National Defence

Estimated Savings – 3 Years

| Title of Recommendation | Description | Grace Commission | C&AO/CBO | Comments - CBO/GAO | Implementation | Applicability to Canada |
|--|---|--|-----------------------------------|--|----------------------------------|-------------------------|
| <hr/> | | | | | | |
| Revision of Military Retirement Pay (pg. 35) | <ul style="list-style-type: none"> - begin providing full annuities at age 62 rather than date of retirement; - base annuity on highest 5 years of base pay; - lower retirement credit from 2.5% per year of service to 2.1%; - reduce retirement pay by share of Social Security Benefits attributable to military service; - reduce cost of living allowance; - introduce annuity at age 62 for those who serviced 10 to 19 years (who now receive nothing). <p>2 alternatives:</p> | \$28.1 billion | \$0.5 billion | <ul style="list-style-type: none"> - Proposals ignore impact on military manpower management, force profiles and other personnel costs – i.e., will reduce proportion of career personnel and experience level of active-duty force; - CBO/GAO estimates done on the basis of budget outlays rather than accrued costs; accrued savings from 1985-87 is estimated at \$22.7 billion. | Requires legislation | National Defence |
| Revise Military Commissary Operations (pg. 39) | <p>a) close all commissaries in continental US and allow PX system to offer full food line where facilities don't exist or;</p> <p>b) operate non-competitive food commissaries privately.</p> | <p>a) \$1 billion</p> <p>b) \$1.5 to \$2.5 billion</p> | <p>a) \$1 billion</p> <p>b) ?</p> | <ul style="list-style-type: none"> - valid alternative but may impact military retention leading to higher recruiting costs | Change administrative procedures | National Defence |

Review of Major Grace Commission Recommendations - National Defence

Estimated Savings - 3 Years

| Title of Recommendation | Description | Grace Commission | GAO/CBO | Comments - CBO/GAO | Implementation | Applicability to Canada |
|---|---|--|--|---|--|--|
| Reduce use of Civilian health care services for military personnel (pg. 41) | | | | | | |
| <p>Recover Medical Care costs from Private insurers (pg. 44)</p> <p>Remove Restrictions on sale of Silver stockpiles (pg. 47)</p> | <ul style="list-style-type: none"> - require such beneficiaries within 40 miles of a military hospital to use that facility rather than be reimbursed for private care - if an individual, covered by private medical insurance, uses a DOD hospital recover expense from insurer (i.e., retirees and dependents) | <ul style="list-style-type: none"> \$1.2 billion \$0.8 billion | <ul style="list-style-type: none"> - military hospitals have varying ability to provide full range of service/may be additional marginal cost in treating more patients - some risk of degrading the quality of care | <ul style="list-style-type: none"> - lower estimate of No. of patients with insurance coverage and lower estimate of % payment by insurers by CBO/GAO - small increase expected in all policy holder's premiums | <ul style="list-style-type: none"> Requires legislation National Defence National Defence | <ul style="list-style-type: none"> Change administrative procedures National Defence National Defence |

Review of Major Grace Commission Recommendations - National Defence

Estimated Savings - 3 Years

| Title of Recommendation | Description | Grace Commission | GAO/CBO | Comments - CBO/GAO | Implementation | Applicability to Canada |
|---|--|------------------|---------------|---|--------------------------------------|-------------------------|
| Revise DoD Contract Financing Procedures (pg. 50) | <p>3 steps:</p> <ol style="list-style-type: none"> 1) review contract pricing, profit and financing policy and simplify the process 2) establish a data base management system for acquisition policy analysis 3) reduce cash progress payment rates on fixed price contracts to previous levels; establish contractor investment in work-in-process at 15% | \$1.7 billion | \$6.0 billion | <ul style="list-style-type: none"> - contractors will likely demand higher prices or changes in other terms and conditions - cost savings come from reduced financing charges on slower payments | Executive Branch order | National Defence |
| Increase use of Multi-year Procurement (pg. 53) | <ul style="list-style-type: none"> - increase No. of contracts to meet requirements for more than 1 year | \$6.6 billion | (A) | <ul style="list-style-type: none"> - no specific purchases were identified; commission applied a 7.5% estimated saving across entire procurement budget - DoD now uses multi-year procurement for a wide variety of purchases | Legislation needed for any extension | National Defence |

(A): Recommendation not sufficiently specific for GAO/CBO to estimate impact.

Review of Major Grace Commission Recommendations – National Defence

Estimated Savings - 3 Years

| Title of Recommendation | Description | Grace Commission | GAO/CBO | Comments - CBO/GAO | Implementation | Applicability to Canada |
|---|--|------------------|---------|--|----------------------------------|-------------------------|
| Establish and Maintain Efficient Weapons' Production Rates (pg. 56) | <ul style="list-style-type: none"> - produce at or near the economic rate reduces total acquisition cost: o ensure weapons are affordable before purchase o create a reserve fund for financial emergencies and prevent production "stretch-outs" o use a 2 year budget cycle o stabilize and better integrate PRBS o provide best cost estimate for entire weapons acquisition cycle o establish an audit trail between estimates and final cost o reprogram funds from low priority to high priority items o determine cost effects of stretch-outs | \$18.3 billion | (A) | <ul style="list-style-type: none"> - Commission assumed cost reductions of 2% to 10% without identifying systems - appears to be duplication in estimated savings - limited funds reduce ability for all systems to be produced at the most economical rate - extending production maintains defence industry base | Some actions require legislation | National Defence |

(A): Recommendation not sufficiently specific for GAO/CBO to estimate impact.

Review of Major Grace Commission Recommendations - National Defence

Estimated Savings - 3 Years

| Title of Recommendation | Description | Grace Commission | GAO/CBO | Comments - CBO/GAO | Implementation | Applicability to Canada |
|---|---|------------------|---------|---|--|---|
| Increase use of Common Parts and Standards (pg. 61) | <ul style="list-style-type: none"> - increase use of common parts and equipment - make greater use of parts and equipment designed to commercial rather than military standards | \$7.3 billion | (A) | <ul style="list-style-type: none"> - commission assumed savings of 4.8% on all weapons systems - commission did not provide information to assess validity of estimate - commercial standards would increase defence base but may reduce military preparedness | <ul style="list-style-type: none"> - Commission found insufficient historical date to determine past savings - Commission applied general percentages to budgets but gave no further justification | <p>Implement on Secretary's authority</p> <p>National Defence</p> |

Review of Major Grace Commission Recommendations – National Defence

Estimated Savings – 3 Years

| Title of Recommendation | Description | Grace Commission | GAO/CBO | Comments - CBO/GAO | Implementation | Applicability to Canada |
|---|--|------------------|---------|--|--------------------------|-------------------------|
| Improve Army Weapons Systems Acquisition (Pg. 67) | <ul style="list-style-type: none"> - develop acquisition strategies that emphasize near-term planning - remove unrealistic estimates when planning and explain cost variances - required qualified program managers early in the acquisition cycle - hire experts in starting up new systems and separate procurement and production functions | \$2.6 billion | (A) | <ul style="list-style-type: none"> - proposals are too general to estimate savings - 72% of savings based on reduced acquisition rather than increased efficiency – no estimate of effect on readiness | Administrative authority | National Defence |
| Improve Procurement Process Management (Pg. 70) | <ul style="list-style-type: none"> - develop comprehensive and detailed acquisition plans - select lowest bids and strengthen monitoring of contractors' estimates - produce "most likely" cost estimates and get early warning of cost growth - improve program management with increased authority, support and quality of personnel. | \$7.8 billion | (A) | <ul style="list-style-type: none"> - commission estimated 7% savings on all major procurement | Administrative authority | National Defence |

(A): Commission recommendations not sufficiently specific for GAO/CBO to estimate impact.

Review of Major Grace Commission Recommendations - National Defence

Estimated Savings - 3 Years

| Title of Recommendation | Description | Comments - CBO/GAO | Implementation | Applicability to Canada |
|--|---|--------------------------------------|---|--|
| Grace Commission | GAO/CBO | | | |
| Establish a procurement Audit Service for Weapons Acquisition (pg. 73) | <ul style="list-style-type: none"> - establish an internal audit service to examine internal control for procurement, research, development testing and evaluation | \$1.6 billion (B) | <ul style="list-style-type: none"> - increased audit should lead to improved acquisition and savings - no valid method of estimating savings | Already established National Defence |
| Modernize Contractors' facilities and enhance productivity (pg. 75) | <ul style="list-style-type: none"> - increase funding for contractors to invest in productivity - enhancing capital improvements - train and assist contracting officers and program managers to implement productivity improvements - encourage allowance of accelerated depreciation for defence contractors - provide more up front funding for innovations and practical projects | \$1.5 billion (A) | <ul style="list-style-type: none"> - can't estimate savings that would accrue from proposal - may widen defence base - accelerated depreciation increases cost by lowering tax revenues | Increase budgets DRIF - Defence Industry Productivity Program |
| Consolidate or close bases and/or base activities (pg. 78) | <p>a) appoint an independent commission to realign bases or have DOD assess bases</p> <p>a) \$2.7 billion (A)</p> <p>(B): Impact of recommendations can't be estimated with available information.</p> <p>(A): Commission recommendations not sufficiently specific for GAO/CBO to estimate impact.</p> | Executive Branch initiative required | <p>National Defence</p> <ul style="list-style-type: none"> - no specifics of which bases to close although GAO/CBO believe substantial savings could be realized - impact on local economics unknown - impact on military preparedness unknown | |

Review of Major Grace Commission Recommendations - National Defence

Estimated Savings - 3 Years

| Title of Recommendation | Description | Grace Commission | GAO/CBO | Comments - CBO/GAO | Implementation | Applicability to Canada |
|---|---|---|---------------|---|--|-------------------------|
| Improve Automated Inventory Management (pg. 82) | <p>b) increase base support consolidations</p> <p>c) consolidate depot-level maintenance facilities based on uniform cost accounting system</p> <p>- modernize the data processing system for logistics and make compatible across services</p> | <p>b) 0.5 billion</p> <p>(A)</p> <p>c) \$1 billion</p> <p>(A)</p> | \$7.4 billion | <p>(A)</p> <p>- no specific details provided</p> <p>- part of the problem is high error rate in inventory records; GAO believes obsolete inventory management should be replaced; correct management weaknesses first</p> | <p>- Administrative action</p> <p>- National Defence</p> | National Defence |

(A): Commission recommendations not sufficiently specific for GAO/CBO to estimate impact.

Review of Major Grace Commission Recommendations – National Defence

Estimated Savings – 3 Years

| Title of Recommendation | Description | Grace Commission | GAO/CBO | Comments - CBO/GAO | Implementation | Applicability to Canada |
|---|---|----------------------|----------------------|---|--|-------------------------|
| Improve Management of DoD Laboratories (pg. 89) | <p>- improve planning, monitoring, management and coordination of data exchange for R&D between services to reduce duplication and improve productivity</p> <p>- establish goals on national defence priorities, strategies, planning procedures, long-range planning for budgeting and operational management and introduce multi-year budgeting</p> | \$1.6 billion (A) | \$6.1 billion (A) | <ul style="list-style-type: none"> - Commission based on 5% of laboratory costs - difficult to attribute savings to particular planning improvements - early GAO studies indicated effective information transfer between labs. <ul style="list-style-type: none"> - Commission savings of 2.5% for management improvements and 5% for long-range improvements - CBO/GAO unable to confirm the order of magnitude of savings | <ul style="list-style-type: none"> - Administratively | National Defence |

(A): Commission recommendations not sufficiently specific for GAO/CBO to estimate impact.

Review of Major Grace Commission Recommendations – National Defence

Estimated Savings – 3 Years

| Title of Recommendation | Description | Comments - CBO/GAO | Implementation | Applicability to Canada | | |
|--|--|-----------------------------|----------------|---|----------------------|------------------|
| Grace Commission | GAO/CBO | | | | | |
| Reduce DoD oversight of Contractors' independent Research and Development costs (pg. 93) | <ul style="list-style-type: none"> - rely on competitive market forces to control costs - climate prior approvals, expenditure ceilings and review processes | \$0.3 billion | (A) | <ul style="list-style-type: none"> - eliminates 1200 oversight jobs; but degree of competitiveness in defence industry is questionable - CBO believes savings would be offset by increases in contractors charges | Legislative action | National Defence |
| Revise DoD Financial Accounting and Management: (pg. 95) | <ul style="list-style-type: none"> - shift Congressional focus from an obligation basis to an accrued expenditure basis - use accrual accounting - change appropriations structure to combine all operating expense appropriations - have a system that focuses on the total operating expense of each organizational unit | \$1.2 billion | (A) | <ul style="list-style-type: none"> - Commission estimated 1% of total operating expenses - GAO/CBO unable to find basis for assumptions - changes would require major changes in DoD operating, cost, budgeting and accounting systems | Legislation budgeted | National Defence |
| Less duplication and overlays | - <u>\$16.2 billion</u> | — | — | | | |
| Net Saving | <u>\$94.1 billion</u> | <u><u>\$9.2 billion</u></u> | | | | |

Area Summary

Social Development

The Grace Commission recommendations applicable to the Canadian Social Development envelope can be classified as follows:

- limiting the growth of health care and other social program costs;
- increased monitoring of an individual's right to qualify for various benefits; and
- reduced student aid programs.

The Commission has made a number of recommendations to reduce health care costs including placing a cap on the growth of health care costs equal to the growth in Gross National Product, changing the manner in which food stamp allowances are calculated, reducing the overlap between the food stamp and school lunch programs, negotiating a fixed price for medicaid reimbursements rather than based on cost, increased cost recovery for medical care by the Veterans Administration (VA) and the Indian Health Service, stop building VA hospitals and convert acute care facilities to extended care, eliminate excess hospital capacity and improve planning and resource allocation for VA hospitals. The Grace Commission estimates the three year savings from these recommendations at \$4.5 billion.

The Commission assigns the greatest savings (\$28.9 billion) to limiting the growth of health care costs to the rate of growth in GNP. This proposal would presumably result in a shift of the financial burden to beneficiaries. Similarly the food stamp and school lunch proposals would result in reduced payments to those near the poverty line. The GAO/CBO believes the savings from cost recovery is limited because those able to pay for care are not served at these facilities. Savings are possible from converting VA acute care facilities to extended care facilities.

The Commission has recommended that lending institutions spread out student loan payments over the school year, that students be charged an increased initiation fee for a student loan and that the student loan programs be consolidated. The Commission estimates three year savings at \$2.8 billion. The GAO/CBO estimate of savings for these programs is \$2.3 billion. These recommendations will likely have the effect of reducing the student loan funds available.

The last major group of recommendations affecting social development require increased review and monitoring of eligibility for benefits including social security disability claims, increased enforcement of social security earnings limits, co-ordination and automation of state welfare data, improved income verification for means tested programs and improved verification of eligibility for housing. The Commission estimates these savings at \$13.2 billion over three years. The GAO/CBO estimate of three year savings is \$3.1 billion.

The GAO points out that much has already been done to reduce abuse of these programs. Much of the information needed for income verification will result in a loss of privacy to the individuals involved and may interfere with their rights.

In addition to the areas described above the Commission recommends reducing the deficit of the corporation that insures pensions and improved management of the Social Security Administration.

Many of the programs reviewed by the Commission have counterparts in Canada. However many of the recommendations are not relevant to the Government of Canada, either because the program is run provincially in Canada or because the principle of universality applies in Canada. The effect of most of these Commission recommendations would be to reduce the benefits to recipients.

Review of Major Grace Commission Recommendations - Social Development

Estimated Savings - 3 Years

| Title of Recommendation | Description | Grace Commission | GAO/CBO | Comments - CBO/GAO | Implementation | Applicability to Canada |
|---|--|------------------|---------------|---|----------------|---|
| Limit Growth in Health Care Costs to GNP Growth (pg. 107) | <ul style="list-style-type: none"> - from 1975 to 1983 health care costs rose annually at 14% while GNP grew only 10% - Commission proposal is to limit growth to GNP and distribute to regions on a per capita basis - private sector, state and local health care systems would submit competitive bids to provide services | \$28.9 billion | \$3.9 billion | <ul style="list-style-type: none"> - CBO/GAO anticipate two years delay to implement (effect to 1989 is same as PPSSC estimate) - effect on beneficiaries is not known - presumably shift of financial burden or reduced level of care - GAO feels this proposal should be delayed while other methods are attempted | Legislation | <ul style="list-style-type: none"> - Health and Welfare - Health and Social Services Program |
| Revise the Family Make-up for the Thrifty Food Plan (pg. 110) | <ul style="list-style-type: none"> - allowances for food stamps are based on the cost of a nutritious meal for a family of 4 - Commission proposes using a more individualized system for giving allotments | \$3.4 billion | \$1.5 billion | <ul style="list-style-type: none"> - reduce maximum allotment and benefits for households - likely administratively burdensome and prone to errors - GAO believes change is needed but recommends a different approach | Legislation | <ul style="list-style-type: none"> - Health and Welfare - provincial governments |
| Reduce Food Stamp - Child Nutrition Overlap (pg. 114) | <ul style="list-style-type: none"> - when calculating eligibility for food stamp benefits the government should subtract the value of free school lunches given to children | \$1.7 billion | \$1.5 billion | <ul style="list-style-type: none"> - average reduction across families with school age children would be between \$7.50 to \$11.25 per month per child - controversial item that should be studied more to include other overlaps | | <ul style="list-style-type: none"> - Health and Welfare - provincial governments |

Review of Major Grace Commission Recommendations - Social Development

Estimated Savings - 3 Years

| Title of Recommendation | Description | Grace Commission | GAO/CBO | Comments - CBO/GAO | Implementation | Applicability to Canada |
|---|--|------------------|---------------|---|----------------|--|
| Require Multiple Disbursements of Graduate Student Loans (pg. 121) | - do not allow lenders to disburse funds in a lump sum but rather spread out over the school year | \$1 billion | \$0.2 billion | - may reduce lenders yield and thus availability of funds; effect probably small | Legislation | Secretary of State - Education Support Program |
| Increase Initiation Fee on Guaranteed Student Loans (pg. 123) | - double the fee charged to students when they receive a guaranteed loan | \$1.6 billion | \$0.9 billion | - difference in assumed loan volumes - reduce amount available to students | Legislation | Secretary of State - Education Support Program |
| Eliminate Federal Subsidy for Railroad Retirement Windfall Benefits (pg. 125) | - reduce subsidy to those eligible for both social security and railroad benefits - annual appropriation given to raise railroad retirement benefits | \$1.2 billion | \$1 billion | - reduce annuities by \$1,100/year for 370,000 annuitants and survivors | Legislation | Not Applicable |
| Tighten Social Security Disability Claims Process (pg. 128) | - for disability insurance and supplemental security income only allow appeal, after denial, when new evidence is presented - decrease number of individuals receiving benefits | \$3.6 billion | \$2.4 billion | - effects those receiving Medicare and Medicaid as well; CBO estimates fewer new claimants denied but greater cost savings from the elimination of current recipients - may conflict with current legislation affecting rights to appeal | Legislation | Health and Welfare - Income Security Program |

Review of Major Grace Commission Recommendations - Social Development

| Title of Recommendation | Description | Estimated Savings - 3 Years | | | Applicability to Canada |
|--|--|-----------------------------|---------------|---|---|
| | | Grace Commission | GAO/CBO | Comments - CBO/GAO | |
| Reduce the Deficit for the Pension Benefit Guaranty Corporation (pg. 132) | <ul style="list-style-type: none"> - ensures that all subscribers to private pension plans receive annuity benefits even if the plans terminate - rates are not currently high enough to be self-financing - five proposals: - increase premiums from \$2.60 to \$6.00 per participant - reduce initial period for collection - reduce corporation's liability through special assessment - contract out for services - develop a risk-rated premium structure | \$3.7 billion | \$2.3 billion | <ul style="list-style-type: none"> - increased premium has merit to cover programs claims and administrative costs - special assessment hurts newer funds more than older funds - risk-related premiums would provide more equitable funding - accelerating cash flows unnecessary - use of private insurers has merit | Legislation |
| Require Prospective Payment Systems for Medicaid Hospital Reimbursements (pg. 138) | <ul style="list-style-type: none"> - Reduce in patient expenditures: - negotiate fixed price rather than cost based rates for services - encourage hospitals to set rates that apply to both government and private insurers | \$0.5 billion | \$0.1 billion | <ul style="list-style-type: none"> - minimal impact because most states now use fixed price | <p>Finance - Pension Benefits Standards Acts</p> <p>Legislation</p> <p>Health and Welfare Health and Social Services Program - provincial governments</p> |

Review of Major Grace Commission Recommendations - Social Development

Estimated Savings - 3 Years

| Role of Recommendation | Description | Grace Commission | GAO/CBO | Comments - CBO/GAO | Implementation | Applicability to Canada |
|---|--|------------------|---------|--|----------------|--|
| Improve Health Care | <ul style="list-style-type: none"> - create competitive forces for public and private health care <p>For long-term care:</p> <ul style="list-style-type: none"> - require pre-screening and case management to participate in community-based service programs | \$0.5 billion | \$0 | | | |
| Improve Enforcement of Social Security Earnings Limit (pg. 140) | <ul style="list-style-type: none"> - tighten enforcement of earnings tests to reduce overpayments - more emphasis on collection of overpayments including interest | \$4 billion | \$0 | <ul style="list-style-type: none"> - savings possible in future years - much overpayment error has already been reduced - requires modern computer not available until 1989 | Administrative | Health and Welfare - Income Security Program |
| Co-ordinate and Automate State Welfare Data (pg. 142) | <ul style="list-style-type: none"> - Federal government has given aid to automate other state programs | \$1.4 billion | (C) | <ul style="list-style-type: none"> - likely reduce administrative costs and slightly reduce program error | Administrative | Health and Welfare - Income Security Program |

(C): Savings estimated at less than \$50 million

Review of Major Grace Commission Recommendations - Social Development

Estimated Savings - 3 Years

| Title of Recommendation | Description | Grace Commission | GAO/CBO | Comments - CBO/GAO | Implementation | Applicability to Canada |
|--|--|------------------|---------------|--|------------------------------|--|
| Improve Income Verification in Means Tested Programs (pg. 144) | <ul style="list-style-type: none"> - require states to collect quarterly data on wages to use in Unemployment Insurance, Food Stamp, Aid to Families and Child Support Enforcement programs - permit disclosure by IRS of income - require Social Security nos. and income tax returns for eligibility - use wage data to review the performance of housing managers | \$2.3 billion | \$0.7 billion | <ul style="list-style-type: none"> - actual savings is uncertain - administrative costs of implementation would be significant - extensive income verification is already done - loss of privacy for individuals - risk of improper disclosures - CBO believes savings will be only 15% to 50% of PPSSCC estimate | Legislative & Administrative | <ul style="list-style-type: none"> - Canadian Employment and Immigration Commission - Health and Welfare - Income Security Program |
| Refine Veterans Administration (VA) Response to Guaranteed Loan Foreclosures (pg. 148) | <p>When a guaranteed home loan is foreclosed the VA can:</p> <ul style="list-style-type: none"> - pay off the guaranty or - reimburse the lender's losses in exchange for title and then resell the house. <p>Proposal - reduce maximum bid allowed by lender to encourage third parties to bid on the house</p> | \$0.2 billion | \$0.3 billion | <ul style="list-style-type: none"> - effect on veterans is minimal - lenders would incur higher costs | Veterans Affairs | <ul style="list-style-type: none"> - Canadian Employment and Immigration Commission - Health and Welfare - Income Security Program |

Review of Major Grace Commission Recommendations - Social Development

Estimated Savings - 3 Years

| Title of Recommendation | Description | Comments - CBO/GAO | Implementation | Applicability to Canada |
|--|---|--|--|---|
| Grace Commission | GAO/CBO | | | |
| Produce Errors in VA Loans Processing (pg. 151) | - improve system to process claims in order to prevent errors, detect errors and eliminate errors | \$1.5 billion (B) | - not possible to determine savings from current information | Veterans Affairs |
| Consolidate the Department of Education's Student Loan Programs (pg. 175) | - consolidate direct loan programs with guarantees to reduce administrative costs and because guaranteees are more cost effective | \$0.2 billion | - eliminates ability of students to borrow supplemental funds - loan capital to lower income students would likely be reduced | Legislation |
| Increase Cost Recovery for Medical Care by Veterans Administration and Indian Health Service (pg. 190) | a) - adopt Medicare hospital and physician reimbursement rates b) - contract with fiscal intermediaries to process hospital and physician claims c) - eliminate clauses in health insurance contracts excluding the federal govt from cost recovery - means test veterans without service connected disabilities | a) \$0.2 billion b) \$0.7 billion b) \$0 c) \$1.8 billion c) \$0.8 billion | - VA and Indian health are exploring fee per ailment rather than cost based - PPSSCC has greatly overestimated the current cost of processing | Secretary of State - Education Support Program Northern Development Health and Welfare - Medical Services |

Review of Major Grace Commission Recommendations - Social Development

Estimated Savings - 3 Years

| Title of Recommendation | Description | Grace Commission | GAO/CBO | Comments - CBO/GAO | Implementation | Applicability to Canada |
|--|--|---|--|---|---|--|
| Phase Out VA Health Care Facility Construction (pg. 193) | Stop constructing new nursing home facilities; a) convert available acute-care beds to extended care b) contract out | \$1.3 billion | \$0.3 billion | - use of acute care beds should meet all of the required need for extended care facilities | Veterans Affairs | |
| Eliminate Excess Hospital Capacity (pg. 196) | a) close and convert underutilized hospitals and reduce reimbursement for inappropriate hospital stays b) limit Medicare reimbursement when hospital occupancy falls below 85%, establish maximum interest rate on hospital borrowing and limit "certificate of need" approvals c) replace tax exempt hospital bonds with tax exempt state and local governments | a) \$0.9 billion b)(A) c) \$0.7 billion | a) \$0 billion b)(A) c) unable to estimate savings | a) no savings because prospective fee structure requires Medicare to pay fixed fees b) unable to estimate savings c) unable to estimate savings | Legislation - Veterans Affairs - Health and Welfare - Health and Social Services Program and Medical Services - provincial governments | - Veterans Affairs - Health and Welfare - Health and Social Services Program and Medical Services - provincial governments |
| Improve Planning and Resource Allocation in VA Hospitals (pg. 198) | - use a resource allocation model to determine short term budgetary needs and for long-range planning to reduce average stay and increase occupancy rate to 80% | \$4.9 billion | (A) | - current occupancy rate exceeds 80% unknown if model will actually result in reduced costs | Veterans Affairs | |

Review of Major Grace Commission Recommendations - Social Development

Estimated Savings - 3 Years

| Title of Recommendation | Description | Grace Commission | GAO/CBO | Comments - CBO/GAO | Implementation | Applicability to Canada |
|---|--|------------------------------|------------------------------|--|----------------|--|
| Improve Verification of Applicants' Eligibility for Housing (pG. 241) | <ul style="list-style-type: none"> - Department's Inspector General indicates significant numbers of tenants who occupy gov't assisted dwellings are ineligible - use computer matching to review all available data on applicant's income - better train local managers - closely monitor local officials | \$1.9 billion | \$0 | <ul style="list-style-type: none"> - no. of eligible households far exceeds no. of units; ineligible tenants would be re-placed with eligible tenants | Legislation | Canadian Mortgage and Housing Corporation |
| Improve Social Security Administration Management (pG. 287) | <ul style="list-style-type: none"> - new management system to improve productivity by 50% base on daily work plans, production goals, close monitoring and reduced work forces per supervisor | \$1.3 billion | \$0.1 billion | <ul style="list-style-type: none"> - PPSSCC estimates a work force reduction of 18,000 - CBO estimates productivity increase of only 11% because PPSSCC estimates are based on only 1 type of activity - GAO concurs that systems improvement and standardization is required | Administrative | Health and Welfare - Income Security Program |
| Total Estimated Savings for 3 years - Social Development | | <u><u>\$69.4 billion</u></u> | <u><u>\$17.1 billion</u></u> | | | |

Area Summary
Economic Development

The major Grace Commission recommendations potentially affecting the Economic Development envelope are in the following areas:

- changes in lending practices to the private sector;
- changes in the management of natural resources;
- changes in legislation affecting the benefits of federal contractors and subcontractors; and
- miscellaneous recommendations affecting specific programs.

The suggested changes in lending practices include replacing direct loan programs with loan guarantees, raising interest rates on government loans, and applying market practices to direct federal lending. The Commission estimates that savings from these recommendations will total \$7.4 billion over 3 years. The CBO/GAO estimates the savings at \$24.2 billion primarily because of abolition of all direct lending programs.

These changes would have a negative impact on many of the high risk beneficiaries of the programs. Many Canadian government programs offer direct loans to businesses and individuals.

Grace Commission recommendations affecting the management of natural resources include improvements in the acquisition of petroleum for the strategic reserve, improved management of outer continental shelf oil and gas leasing, improving the cash management of timber sales and increasing revenues from the sale of power from federal dams. The Commissions estimates savings of \$421.3 billion from these recommendations with \$17.1 billion from power marketing. The GAO/CBO estimate of 3 year savings is \$2 billion. The power marketing and strategic petroleum reserve recommendations are not applicable to Canada.

The Commission made three recommendations reducing the benefits paid to employees of federal contractors or subcontractors. These recommendations would produce 3 year savings of \$11.7 billion according to the Commission. The GAO/CBO estimate of savings is \$2.4 billion. The Canadian Fair Wages and Hours of Work Act contains similar provisions.

In addition to the above recommendations the Commission recommends reducing the size of dairy product inventories, consolidation of federal highway programs, charging user fees for non-emergency Coast Guard services and improving the management of research and development. Similar institutions exist in Canada.

Review of Major Grace Commission Recommendations - Economic Development

Estimated Savings - 3 Years

| Line of Recommendation | Description | Grace Commission | GAO/CBO | Comments - CBO/GAO | Implementation | Applicability to Canada |
|--|---|--|---|---|--------------------------|---|
| Reduce Commodity Credit Corporation Inventories (pg. 117) | <ul style="list-style-type: none"> a) require a % of coupons issued under the food stamp program be used to buy dairy products bought by the Corporation; b) expedite the disposal of products for foreign aid. | <ul style="list-style-type: none"> a) \$0.4 billion b) \$1.4 billion | <ul style="list-style-type: none"> a) \$0.3 billion b) \emptyset | <ul style="list-style-type: none"> a) will increase administrative costs but should lower the amount of price supported dairy products in inventory; - effect on nutrition of recipients is unknown. | legislation | <ul style="list-style-type: none"> - Agriculture - Canadian Dairy Commission |
| Eliminate Donations from the Commodity Credit Corporation to other Agencies (pg. 136). | <ul style="list-style-type: none"> - recover donations of price supported commodities to be reimbursed by recipients such as prisons, the VA, the Food and Nutrition Service and foreign recipients. | \$1.2 billion | <ul style="list-style-type: none"> b) \emptyset | <ul style="list-style-type: none"> b) Would seriously affect other objectives such as foreign policy and humanitarian objectives; much of this product is not suitable for foreign disposal. | administrative authority | <ul style="list-style-type: none"> - Agriculture - Canadian Dairy Commission |
| Replace Direct Loan Programs with Loan Guarantees (pg. 169). | <ul style="list-style-type: none"> - convert direct loan programs under small business administration and the Farmers Home Administration to loan guarantees. - reduce guarantees from 90% to 75%. | \$1.8 billion. | <ul style="list-style-type: none"> \$23.4 billion. | <ul style="list-style-type: none"> - new firms would be negatively affected by conversion to guarantee (SBA). - many applicants would not meet criteria. - subsidy to new home buyers would be eliminated. | legislation | <ul style="list-style-type: none"> - Agriculture - Canadian Dairy Commission - Agriculture - Canadian Dairy Commission - Department of Regional Industrial Expansion (DRIE) <ul style="list-style-type: none"> - Farm Credit Corporation (FCC) - Export Development Corporation (EDC) - Federal Business Development Bank (FBD) - CMHC |

Review of Major Grace Commission Recommendations - Economic Development
Estimated Savings - 3 Years

| Title of Recommendation | Description | Grace Commission | GAO/CBO | Comments - CBO/GAO | Implementation | Applicability to Canada |
|--|---|--|--|---|---|--|
| Consolidate Federal Highway Program Categories (ppg, 200). | <ul style="list-style-type: none"> - consolidate federal highway programs and eliminate special purpose programs; - turn over administrative and operating responsibility to the states; - provide multi-year funding and allow states to shift funds among uses. | \$1 billion | \$0.1 billion | <ul style="list-style-type: none"> - much of PPSSCC saving comes from reduced funding for highway/railroad grade crossings; - CBO cannot determine if consolidation would produce savings; - considerable consolidation has already taken place. | legislation | <ul style="list-style-type: none"> - Transport - Surface Administration - Public Works - Transportation and Other Engineering Program |
| Improve Procurement Policies for the Strategic Petroleum Reserve (ppg, 202). | <ul style="list-style-type: none"> - exempt from requirement to carry fuel on U.S. ships; - operate on a government-owned, contractor basis; - don't acquire certain items and have facilities built on a fixed price basis; - reduce fill rate to avoid interim storage. | a) \$0.2 billion b) (C) c) \$0.1 billion d) \$1 billion | \$0.2 billion unknown b b | <ul style="list-style-type: none"> - cargo preference may effect national security or alternative maritime subsidies. | legislation Energy, Mines and Resources - Energy Program | <ul style="list-style-type: none"> - Transport - Surface Administration - Public Works - Transportation and Other Engineering Program |
| (C): Estimated savings less than \$50 million | | | | <ul style="list-style-type: none"> - no plans to purchase equipment now. - already done. | | |

Review of Major Grace Commission Recommendations - Economic Development

Estimated Savings - 3 Years

| Title of Recommendation | Description | Grace Commission | GAO/CBO | Comments - CBO/GAO | Implementation | Applicability to Canada |
|---|---|------------------|---------------|--|------------------|--------------------------------|
| Improve Timber Sales Cash Management (pg. 205). | <ul style="list-style-type: none"> - require a flat payment schedule on timber contracts rather than based on removal of timber from the forest. | \$0.5 billion | \$0.6 billion | <ul style="list-style-type: none"> - average contract bids will likely be lower with accelerated payments because of reduced flexibility for timber purchasers; - Forest Service now requires an initial 10% deposit and 25% by midpoint of contract; - implementation inappropriate (GAO). | administratively | Environment - Forestry Service |

Energy, Mines and Resources - Energy Program

Review of Major Grace Commission Recommendations - Economic Development

Estimated Savings - 3 Years

| Title of Recommendation | Description | Grace Commission | GAO/CBO | Comments - CBO/GAO | Implementation | Applicability to Canada |
|--|--|------------------|---------------|---|--------------------------------|-------------------------|
| Impose User Fees for Certain U.S. Coast Guard Services (pg. 212) | <p>- change fees for Coast Guard Services for identifiable groups of commercial shoppers and recreational boaters (e.g., search and rescue, aids to navigation, ice breaking, etc.);</p> <p>- transfer non-life threatening search and rescue to private sector.</p> | \$1.6 billion | \$2.2 billion | <ul style="list-style-type: none"> - CBO uses different assumptions; - impact on recreational boaters would be minimal; impact on commercial operators much more significant; - GAO endorses recommendations. | legislation | Transport - Coast Guard |
| Reduce Costs of Power Marketing Administration (pg. 215) | <p>a) require power marketing agencies to repay federal investments or a timely basis at market rates;</p> <p>b) change a user fee for water used to produce electricity;</p> <p>c) sell power marketing agencies to non federal entities.</p> | \$19.1 billion | \$1.2 billion | <ul style="list-style-type: none"> - administrations currently being charged 3%; - higher interest rates and user fees would generate significantly greater revenue; - sale of facilities would involve considerable difficulty and would take at least 5 years; - price of electricity would increase under all proposals. | legislative and administrative | Not Applicable |
| Increase Private Participation in the Uses of Space (pg. 221). | <p>- obtain private financing for a possible 5th space orbiter,</p> | \$1.5 billion | | <ul style="list-style-type: none"> - no savings because NASA currently is reimbursed for all commercial launches. | National Research Council | Research |

Review of Major Grace Commission Recommendations - Economic Development

Estimated Savings - 3 Years

| Title of Recommendation | Description | Grace Commission | GAO/CBO | Comments - CBO/GAO | Implementation | Applicability to Canada |
|---|---|------------------|---------------|--|---|---|
| Repeal or Modify Davis-Bacon Act (pg. 223). | <ul style="list-style-type: none"> - Abolish act establishing minimum prevailing wage rates on fringe benefits to be paid by contractors engaged in federal construction work greater than \$2,000 out; - increase threshold to construction greater than \$1 million; - define prevailing wage to mean range of wages within a local area; - allow unlimited use of semi skilled workers; - allow submission of weekly compliance statement in lieu of payroll records; - set rates for rural areas separately from nearby metropolitan areas. | \$5 billion | \$1.5 billion | <ul style="list-style-type: none"> - would result in reduced cost for federal construction; - GAO supports recommendation. | <ul style="list-style-type: none"> - would result in legislation | Labour - Fair Wages and Hours of Work Act |

Review of Major Grace Commission Recommendations - Economic Development

Estimated Savings - 3 Years

| Title of Recommendation | Description | Estimated Savings - 3 Years | | | Applicability to Canada |
|--|---|-----------------------------|---|---|--|
| | | Grace Commission | GAO/CBO | Comments - CBO/GAO | |
| Repeal or Modify the Service Contract Act (pg. 226). | <ul style="list-style-type: none"> - extends labour standards protection to contractors and subcontractors providing services to the federal govt; - Repeal or cover contracts only greater than \$100,000; - incorporate maximum wage in law; - narrowly define "prevailing" and locality; - remove requirement for a contractor succeeding a prior contractor to match wage rates; - eliminate comparison with federal wage comparison. | \$3.3 billion | \$0.1 billion | <ul style="list-style-type: none"> - effect would be to lower wage rates to service workers; - GAO supports repeal. | Labour - Fair Wages and Hours of Work Act |
| Repeal or Modify Public Contracts Act (pg. 230). | <ul style="list-style-type: none"> - Act provides minimum benefits for workers employed on federal contracts greater than \$10,000 for materials supplies or equipment; - Repeal and abolish overtime provision of another act. | \$3.4 billion | \$0.8 billion | <ul style="list-style-type: none"> - drops contract costs; - places unionized firms at a disadvantage. | legislation |
| Improve Research and Development Management (pg. 243). | <ul style="list-style-type: none"> a) implement a strategic planning process for R&D to establish specific goals, projects and time guidelines; a) \$3.2 billion | (A) | a) PPSSC estimated 5% of total civilian R&D funding could be saved; | <ul style="list-style-type: none"> a) administration | <ul style="list-style-type: none"> National Research Council - Energy, Mines and Resources - Fisheries and Oceans |

(A): Recommendation is not sufficiently specific to estimate impact.

Review of Major Grace Commission Recommendations - Economic Development

Estimated Savings - 3 Years

| Title of Recommendation | Description | GAO/CBO | Comments - CBO/GAO | Implementation | Applicability to Canada |
|-------------------------|---|------------------|--------------------|--|---|
| Grace Commission | b) make budgetary changes to obtain multi-year funding, short budget preparation and reduced technical staff. | b) \$1.6 billion | (A) | b) PPSSC estimates 2.5% of civilian R&D spending could be saved; - GAO supports both recommendations. | b) legislation - Agriculture - National Defence |

b) make budgetary changes to obtain multi-year funding, short budget preparation and reduced technical staff.

b) \$1.6 billion

\$31.2 billion

(A): Recommendation is not sufficiently specific to estimate impact.

Area Summary

Government Operations

The Grace Commission recommendations that would apply to the Departments in the Government Operations envelope are largely in 3 areas:

- changes in public service management and compensation;
- changes in tax policy and administration; and
- improved cash management.

Major Grace Commission recommendations would reduce the pay and benefits of current and retired public servants. These include reduced pensions, reduced disability benefits, changes in health benefits, more comparability between civil service and private sector wages, abolition of thousands of middle management positions, increased contracting out and productivity and reduced annual leave benefits. In all the Grace Commission estimates that these reforms would result in net savings of \$74.6 billion over 3 years with reduced pension benefits accounting for \$30 billion of the potential savings. The GAO/CBO estimates 3 year savings totaling \$7.5 billion with pension savings making up \$6.4 billion of this.

In terms of compensation the GAO/CBO believe that the Grace Commission has greatly overestimated the gap between public service and private sector wages particularly in light of recent caps on federal wage increases. The

GAO/CBO state that savings from productivity increases and reclassification are possible but that the Grace Commission has been overly optimistic in estimating the timing and amount of such savings. The GAO also disputes the Grace Commission estimates of the difference between public service and private sector pensions.

Changes in tax policy and administration include using income tax refunds to offset debts owed the federal government, taxing federal subsidies, indexing federal highway taxes to inflation, limiting the use of tax exempt bonds, augmenting IRS staff who collect delinquent taxes and examining tax returns and accelerating the collection and deposit of social security, income taxes, alcohol and tobacco taxes and custom duties. The Grace Commission estimates these recommendations will result in increased savings and revenues of \$77.5 billion over 3 years. The CBO/GAO analysis estimates these savings will total \$17 billion over 3 years.

Taxing federal subsidies is the most controversial item in this group. The GAO is particularly concerned about the effect of this recommendation on lower income groups. However, many studies have indicated that there is a much broader potential tax base than is currently being exploited. The GAO supports the remaining tax recommendations but believes that the Commission estimates are overly optimistic and that there will be opposition from groups affected by accelerated tax collections.

The last major group of recommendations calls for better cash management. In addition to the recommendations affecting the collection of

income taxes the Commission recommends increased use of credit bureaux and private sector collection agencies, charging interest and penalties on delinquent debt, improving credit processing and debt collection management, encouraging use of electronic transfer of federal funds, making timely payments for procurement and grant programs and accelerating the deposit of federal receipts through automatic account withdrawals, lock boxes and electronic means. The Commission estimates that these recommendations will result in savings of \$9.3 billion over 3 years. The GAO/CBO believe that the potential savings are overestimated but that many are valid.

Recommendations related to improved debt collection interest and penalties on delinquent debt and more timely federal payments have already been implemented. The remaining recommendations have some merit but the GAO believes that further study on the cost-effectiveness and impact is required.

Two other Commission recommendations are to sell unneeded public land and reduce the size of the government vehicle fleet. The GAO believes that the Commission has greatly overestimated the size of the savings from these recommendations.

On the surface many of the Commission's recommendations appear applicable to Canada. Depending upon the condition in Canada many of the tax and cash management recommendations could be implemented in Canada if the appropriate departments undertook the initiative. The public service compensation recommendations would likely be very difficult to implement because of the collective bargaining ability of Canadian public servants.

Review of Major Grace Commission Recommendations – Government Operations

Estimated Savings - 3 Years

| Title of Recommendation | Description | Grace Commission | GAO/CBO | Comments - CBO/GAO | Implementation | Applicability to Canada |
|---|---|------------------|---------------------|--|--|-------------------------|
| Use IRS Refund Offsets to Increase Collection of Delinquent Debt (pg. 178). | <p>Improve Debt Collection through outside efforts (pg. 181).</p> <ul style="list-style-type: none"> - use tax refunds to collect delinquent non tax debts; - used effectively and economically by 17 states. | \$0.4 billion | \$0.8 billion | | <ul style="list-style-type: none"> - agencies would have to undertake collection efforts before referral to IRS; - only about 2% of those receiving refund funds would be affected. | Revenue Taxation |
| Charge Interest and Penalties on Delinquent Debt (pg. 183) | <p>Interest and penalties on delinquent debt are now allowed but not applied because of inadequate accounting systems or inadequate standards.</p> | \$0.3 billion | already implemented | | <ul style="list-style-type: none"> - legislation has already been passed to this effect and thus no additional savings are foreseen. | Treasury Board |
| Improve Credit Processing and Federal Debt Collection Management (pg. 188) | <p>Credit processing and federal debt collection management</p> <ul style="list-style-type: none"> - establish a central credit department in each agency; - develop uniform credit definitions; - provide incentives to individuals and agencies to improve collections; - improve management information systems - improve training. | \$1.1 billion | already implemented | <ul style="list-style-type: none"> - already implemented under new Debt Collection Act. | <ul style="list-style-type: none"> - legislation | Treasury Board |
| (B): Budgetary impact cannot be estimated with available information | | (B) | | | <ul style="list-style-type: none"> - PSSCC estimates are probably too optimistic; - tighter debt collection may conflict goals of some agencies (e.g., Small Business Administration). | Treasury Board |

Review of Major Grace Commission Recommendations - Government Operations

Estimated Savings - 3 Years

| Type of Recommendation | Description | Grace Commission | GAO/CBO | Comments - CBO/GAO | Implementation | Applicability to Canada |
|--|--|------------------|---------------------|---|------------------------------------|---|
| Sell Unneeded Land (pg. 207). | - accelerate current program to sell surplus land. | \$1 billion | \$0.1 billion | - in 1983 only 10,000 acres of land was sold; CBO anticipates an additional increment of 25,000 acres per year; PPSSC estimates 3.8 million acres would be sold over 3 years. | administrative | - Public Works - Environment - Parks |
| Encourage Transfer of Federal Funds (pg. 223); | - encourage direct deposit/electronic funds transfer to eliminate forgery, cheque theft and loss and improve timeliness. | \$0.6 billion | \$1.2 billion | - save 3 days interest by not mailing cheques; - many people oppose direct deposit. | legislation | Treasury Board Supply and Services |
| Reduce the Size of Government Vehicle Fleets. | - dispose of up to 200,000 of current 400,000 vehicles. | \$1.5 billion | \$0.3 billion | - buy fewer vehicles and use current vehicles more; increase average use from 12,200 miles to 15,000 miles/year; - negative impact on natural resource programs where vehicle use is limited by terrain; | administrative | Treasury Board Supply and Services |
| Make timely Federal Payments for Procurement and Grant Programs. | a) vouchers submitted for payment should have due date marked and be paid on that date | \$1.3 billion | already implemented | - GAO suggests better information is needed. - due dates already required on payment vouchers. | Treasury Board Supply and Services | |

Review of Major Grace Commission Recommendations – Government Operations

Estimated Savings – 3 Years

| Title of Recommendation | Description | Grace Commission | GAO/CBO | Comments – CBO/GAO | Implementation | Applicability to Canada |
|--|--|---|---------|--|---|-------------------------|
| Increase use of Performance-Based Contracting for Federal Construction Projects (pg. 245). | <p>b) ensure that states are not investing grant funds before disbursement;</p> <ul style="list-style-type: none"> - amend the law to impose penalties on states that invest grant funds. <p>most federal contracts now specify materials and methods;</p> <p>PPSSCC suggests more use of allowing contractors to use alternative to achieve specific standards of performance.</p> | \$1.1 billion | (A) | <ul style="list-style-type: none"> - program being implemented to monitor states; - electronic transfer will allow for timely payment. | | |
| Upgrade obsolete Computer Hardware and Software Resources (pg. 247). | <p>study all major automated data processing systems for obsolescence;</p> <ul style="list-style-type: none"> - use a variety of tools to improve hardware and software management; - increase by 8 fold the rate of computer systems acquisition. | Hardware: \$3.4 billion Software: \$0.6 billion | (B) | <ul style="list-style-type: none"> - CBO believes savings would be incurred through increased competition but cannot estimate by how much; - often difficult to set good performance specifications. | <p>administratively</p> <p>Public Works Supply and Services</p> | |

(A): Recommendation is not sufficiently specific to estimate impact.

(B): Budget impact cannot be estimated with available information.

Review of Major Grace Commission Recommendations - Government Operations

Estimated Savings - 3 Years

| Title of Recommendation | Description | Grace Commission | GAO/CBO | Comments - CBO/GAO | Implementation | Applicability to Canada |
|-------------------------|-------------|------------------|---------|--------------------|----------------|-------------------------|
|-------------------------|-------------|------------------|---------|--------------------|----------------|-------------------------|

| | | | | | | |
|---|--|--------------|---------------|---|-----------------------|--|
| Reduce Civil Service Retirement Benefits (pg. 259). | <p>For all federal workers:</p> <ul style="list-style-type: none"> - calculate benefits on 5 year salary; - alter the reduction penalty for early retirement because of layoffs and spousal annuities; - increased minimum years of service for a deferred pension from 5 years to 10 years; - For current workers under age 45; - increase retirement age from 55 to 62 with a reduction for early retirement; - reduce the rate that determines pension; - require participation in Social Security; <p>For current and future retirees:</p> <ul style="list-style-type: none"> - reduce post-retirement cost of living adjustments; - offset civil service retirement with Social Security; - eliminate crediting years of military service toward civilian retirement; - eliminate benefits to annuitant's survivors who are students between ages 18 and 22. | \$30 billion | \$6.4 billion | <ul style="list-style-type: none"> - PPSSCC includes the present value of future cost reductions; - PPSSCC claims that this will bring civil service pensions more in line with the private sector - GAO feels it will reduce civil service pensions below; - CBO states that retirement costs private employers 22.8% of pay and federal Government 25.8% of pay; - 1.8 million retirees would receive much lower pensions; - GAO opposes whole package; disputes Commissions' claim of 18%; disparity and points out problems with vested property rights. | Treasury Board PCO | |
|---|--|--------------|---------------|---|-----------------------|--|

Review of Major Grace Commission Recommendations - Government Operations

Estimated Savings - 3 Years

| Title of Recommendation | Description | Grace Commission | GAO/CBO | Comments - CBO/GAO | Implementation | Applicability to Canada |
|--|--|------------------|---------------|---|----------------|------------------------------------|
| Estimated Savings - 3 Years | | | | | | |
| Change Civil Service Retirement Accounting and Investment Practices (pg. 263). | <ul style="list-style-type: none"> - federal agencies do not cover the full cost of retirement benefits; - increase contribution of agencies to reduce Treasury share; - invest retirement funds in top-grade corporate bonds rather than Treasury securities (eventually place 25% of funds in AAA bonds). | no estimate | \$5.6 billion | <ul style="list-style-type: none"> - accounting changes would reduce reported deficits; - agency contributions would increase from 7% to 19%; - increase in Postal Service rate would reduce indirect federal subsidy - increase postage rates; - shifting to AAA bonds may have a major effect on money market and incur higher risks. | legislation | Treasury Board Comptroller General |
| Restrict short-term and long-term Disability Benefits for Federal Employees (pg. 266). | <ul style="list-style-type: none"> - restrict accumulation of sick leave to 130 days; - no longer increase retirement benefits by unused sick leave; - restrict long term disability to those unable to perform job rather than their current job; - pay long-term disability only after 5 months of disability. | \$3.7 billion | \$0.4 billion | <ul style="list-style-type: none"> - PPSSCC estimates government would save 1 sick day per employee per year; - pension benefits would be reduced as would long term disability; - PPSSCC proposals fall short of private sector comparability; - PPSSCC capping proposal may encourage more workers to take annual entitlement. | legislation | Treasury Board |

Review of Major Grace Commission Recommendations - Government Operations

Estimated Savings - 3 Years

| Title of Recommendation | Description | Comments - CBO/GAO | Implementation | Applicability to Canada |
|---|--|--|--|--------------------------------|
| Modify Federal Employees Health Benefit Programs (pg. 269). | <ul style="list-style-type: none"> - Commission recommends bringing program more in line with private sector; - Proposals: - eliminate 75% cap on federal contributions to employee health plans; - amend eligibility criteria; - change cost allocation; - obtain bids on a government-wide basis; - adjust premiums based on geographic differences; - limit no. of health maintenance organizations in each area; - Use biennial enrollment cycle, explore alternatives and give better information to participants. | <ul style="list-style-type: none"> - \$1.4 billion - \$0.5 billion - CBO believes reduced government contributions would be more than offset by administrative expenses and lifting the ceiling on agency contributions; PPSSC didn't take into account differences in income, occupation and characteristics; - GAO points out that federal government share in these programs is 4.3% of pay, average in private sector is 5.3%; - GAO is not convinced of cost-effectiveness of proposals. | <ul style="list-style-type: none"> - legislation and administration | Treasury Board |

Review of Major Grace Commission Recommendations – Government Operations

Estimated Savings - 3 Years

| Title of Recommendation | Description | Grace Commission | GAO/CBO | Comments - CBO/GAO | Implementation | Applicability to Canada |
|--|--|------------------|---------------|---|----------------|-------------------------|
| Reform Process for determining Pay Comparability adjustments for Federal blue-collar employees (pg. 27). | <ul style="list-style-type: none"> - make federal pay policy conform more closely to private sector; - reduce from 5 to 3 the number of steps within each grade; - expand wage surveys to include state and local governments not for profit organizations; - repeat act requiring the federal pay rates consider data from outside the area; - determine night shift and overtime pay in accordance with local practice. | \$1.8 billion | \$0.9 billion | <ul style="list-style-type: none"> - prior to 1978 federal employees were overpaid by about 8% versus non-federal employees; - since then limits on federal pay have left civil service behind; - implementation would in fact require a catch up provision; - GAO supports plan. | legislation | Treasury Board |

- Reform Process for Determining Pay Comparability Adjustments for Federal White Collar Employees (pg. 2/5).
- establish rates using local prevailing rates rather than nationally;
 - expand no. of grade levels;
 - use a biennial rather than annual private sector survey;
 - survey state, local governments, not for profit organizations and small employers;
 - include more job categories in comparison.
- \$4.1 billion (C)
- CBO calculates that comparability would require a 21% catch-up for civil servants;
 - administrative costs to implement PPSSCC proposals;
 - GAO supports PPSSCC refinements.
- legislation
- Treasury Board

(C): Impact is less than \$50 million

Review of Major Grace Commission Recommendations - Government Operations

Estimated Savings - 3 Years

| Title of Recommendation | Description | Grace Commission | GAO/CBO | Comments - CBO/GAO | Implementation | Applicability to Canada |
|--|--|------------------|---------------|---|----------------|---------------------------|
| Change Grades of General Schedule Employees (pg. 278). | <ul style="list-style-type: none"> - accelerate efforts to reduce agency overgrading of positions; - abolish many middle management positions (GS 11 to 15). | \$5.2 billion | \$0.4 billion | <ul style="list-style-type: none"> - CBO estimates 8% reduction in middle management grades to lower positions; - PPSSCC assumes jobs are eliminated; - impact could be lowered morale and difficulty in hiring qualified personnel; - GAO agrees in principle but believes PPSSCC comparisons may be non-representative. | Administrative | Public Commission Service |
| Step up Federal Contracting to for Support Services (pg. 281). | <ul style="list-style-type: none"> - Commission recommends more emphasis on private contractors for support services including maintenance, security and data processing. | \$7.4 billion | \$0.2 billion | <ul style="list-style-type: none"> - CBO believes Commission includes much double counting and ignores statutory limitations on contracting out; - conversion would take longer than PPSSCC estimates; - as many as 165,000 federal jobs would shift to private firms. | Legislation | Treasury Board |

Review of Major Grace Commission Recommendations - Government Operations

Estimated Savings - 3 Years

| Title of Recommendation | Description | Grace Commission | GAO/CBO | Comments - CBO/GAO | Implementation | Applicability to Canada |
|-------------------------|-------------|------------------|---------|--------------------|----------------|-------------------------|
|-------------------------|-------------|------------------|---------|--------------------|----------------|-------------------------|

- Improve Federal work Force Productivity (pg. 28).
- Make organizational changes:
 - institute a unit to provide technical support;
 - establish an office to set policy guidelines, prepare plans and offer assistance to agencies;
 - have GAO review agency automation;
 - establish an organization in the office of Management and Budget for productivity management;
 - resume use of incentive awards, training, performance evaluations and other techniques.
- \$17.1 billion
- \$0.5 billion
- CBO estimates total 4 year productivity gains of 11.6%;
 - CBO estimates lower savings from office automation, lower productivity gains and more gradual gains;
 - reduce employees by 65,000 (4.3%);
 - morale could be hurt and current restrictions on equipment purchases reduced flexibility;
 - GAO endorses office automation.
- legislation and administration
- Treasury Board

Review of Major Grace Commission Recommendations - Government Operations

Estimated Savings - 3 Years

| Title of Recommendation | Description | Grace Commission | GAO/CBO | Comments - CBO/GAO | Implementation | Applicability to Canada |
|--|--|----------------------|--|--|---------------------|-------------------------|
| Improve Productivity of Federal Maintenance Personnel (pg. 290). | <p>increase output per worker of those who maintain, repair and do alteration construction of federal real property;</p> <ul style="list-style-type: none"> - create central productivity groups within each agency; - use incentives to improve management; - hire management consultants; <p>should result in 48% increase in productivity.</p> | \$1.1 billion (C) | <ul style="list-style-type: none"> - CBO estimates based on gradual introduction with all units meeting national average; - GAO agrees productivity improvement possible - could mean reduction of 6,500 blue-collar jobs; - PPSSCC estimates 24,000 less jobs. | <ul style="list-style-type: none"> - administrative | <p>Public Works</p> | |

(C): Impact is less than \$50 million

Review of Major Grace Commission Recommendations - Government Operations

Estimated Savings - 3 Years

| Title of Recommendation | Description | Grace Commission | GAO/CBO | Comments - CBO/GAO | Implementation | Applicability to Canada |
|---|--|------------------|---------------|--|--|------------------------------|
| Tax Federal Subsidies (pg. 303). | <ul style="list-style-type: none"> - place income tax on virtually all federal subsidies programs to individuals and business; - granting agencies would issue information slips; - PPSSCC believes programs have been subject to poor targeting and co-ordination. | \$58.9 billion | \$7 billion | <ul style="list-style-type: none"> - PPSSCC savings overstated due to overestimation of those receiving benefits, - overestimation of overhapping benefits, overestimation of applicable tax rate and not recognizing time required to implement. - other studies indicate that a much broader tax base exists than is currently used; - effect of training business subsidies can't be estimated. | legislation and much study to determine all potential effects. | Revenue Taxation Canada - |
| Index Federal Highway Taxes to Inflation (pg. 308). | <ul style="list-style-type: none"> - ensure that the highway program will have sufficient purchasing power to prevent erosion. | \$2 billion | \$0.5 billion | <ul style="list-style-type: none"> - legislation already has increases built in that will exceed inflation rate. | legislation | Revenue Taxation Canada - |
| Limit the Use of Tax Exempt Revenue Bonds for Private Purposes (pg. 310). | <ul style="list-style-type: none"> - permit tax exemptions only for bonds backed by full faith of city, county or state; - set ceilings on volume of tax exempt bonds that can be issued; - ensure that certain financial criteria be met. | \$5.2 billion | \$3.2 billion | <ul style="list-style-type: none"> - PPSSCC doesn't recognize revenue loss would continue on outstanding bonds; - interest on general state and local bonds may decline; change may result in a more productive use of capital. | legislation Not Applicable | Canada - |

Review of Major Grace Commission Recommendations – Government Operations

Estimated Savings - 3 Years

| Title of Recommendation | Description | Grace Commission | GAO/CBO | Comments - CBO/GAO | Implementation | Applicability to Canada |
|---|---|------------------|---------------------|---|------------------------------------|-------------------------|
| Increase Railroad Retirement Tier 2 Payroll Contributions (pg. 315). | <ul style="list-style-type: none"> - raise by 4% the payroll contributions that fund additional railroad benefits; - law has already been passed to improve the position. | \$1.4 billion | already implemented | <ul style="list-style-type: none"> - changes already in place to enact improvements. | legislation | Not Applicable |
| Improve Federal Tax Administration (pg. 315). | <ul style="list-style-type: none"> - augment IRS staffing to collect delinquent taxes and examine tax returns (hire 2,500 staff); - accelerate the disposition of tax cases before the Tax Court; - establish a tax board to settle litigation less than \$10,000. | \$10 billion | \$3.7 billion | <ul style="list-style-type: none"> - much of the gain comes from increased compliance; - CBO savings from the tax board are only 1/8 of PPSSCC saving (\$.5 billion vs. \$4 billion); - increase % of tax returns reviewed from 1.3% to 1.8%; - GAO supports more effort on examinations and collections. | legislation Revenue Taxation | Canada - |
| Accelerate Payments of Withheld Social Security Taxes by State and Local Governments (pg. 318). | <ul style="list-style-type: none"> - require states to submit Social Security taxes at the same frequency as private employees. | \$0.4 billion | \$0.8 billion | <ul style="list-style-type: none"> - some action has already been taken to accelerate payments; - costs to state and local governments would increase. | legislation Revenue Taxation | Canada - |
| Accelerate Deposits by IRS Service Centers (pg. 320). | <ul style="list-style-type: none"> - restructure work flows at processing centers to accelerate tax deposits by 1 day during peak periods. | \$0.2 billion | (C) | <ul style="list-style-type: none"> - CBO believes only savings would be from interest saving; - IRS plans to undergo a test. | Revenue Taxation | Canada - |

(C): Impact is less than \$50 million

Review of Major Grace Commission Recommendations - Government Operations

Estimated Savings - 3 Years

| Title of Recommendation | Description | Comments - CBO/GAO | Implementation | Applicability to Canada |
|--|---|--|----------------|-------------------------|
| Accelerate Deposits of Federal Receipts (pg. 322). | <p>Accelerate deposits by using:</p> <p>a) Treasury Federal Communications System that effects withdrawals and deposits immediately by electronic means;</p> <p>b) automatic account withdrawals that directly access bank accounts on due date;</p> <p>c) lock boxes at post offices serviced by banks to ensure quicker deposit which will result in interest savings.</p> <p>(B)</p> <p>a) PPSSCC estimates that \$40 billion could be collected 6 days earlier. CBO can't substantiate \$40 billion.</p> <p>b) CBO believes that PPSSCC has overestimated potential savings;</p> <p>c) PPSSCC estimates that \$140 billion could be collected 12.6 days earlier. CBO believes that this is too high.</p> <p>- These proposals would all result in accelerate cash flows;</p> <p>- GAO believes more study is needed to determine cost-effectiveness and controls of this methods.</p> | <p>\$2.5 billion</p> <p>(B)</p> <p>new regulations</p> | Treasury Board | |

(B): Budget impact cannot be estimated with available information.

Review of Major Grace Commission Recommendations - Government Operations

Estimated Savings - 3 Years

| Title of Recommendation | Description | Grace Commission | GAO/CBO | Comments - CBO/GAO | Implementation | Applicability to Canada |
|--|---|-------------------------------|------------------------------|---|-----------------------------|----------------------------|
| Extend Federal Deposit System to Individuals Estimated Tax Payments (pg. 326). | <ul style="list-style-type: none"> - require individuals who make quarterly tax payments to make such payments and their financial institutions authorized to receive such payments (e.g., Federal Reserve Banks); - this would accelerate cash flow. | \$0.2 billion | \$0.2 billion | <ul style="list-style-type: none"> - accelerated payments would result in interest savings (deposits would speed up by 5 to 7 days). | regulation | Revenue Customs and Excise |
| Accelerate Collection of Alcohol and Tobacco Taxes (pg. 328). | <ul style="list-style-type: none"> - require alcohol and tobacco taxes to be remitted by electronic funds transfer at the end and the 15th of each month. | \$0.3 billion | \$0.7 billion | <ul style="list-style-type: none"> - producers argue that their accounts receivable are on average 75 days old and that they would have to finance immediate tax payments. | regulations and legislation | Revenue Customs and Excise |
| Less Duplication for Federal Subsidies | <ul style="list-style-type: none"> - require importers to pay duty immediately upon the release of goods rather than giving a 10 day grace period or; - assess interest on payments from date goods are released. | \$0.1 billion | \$0.3 billion | <ul style="list-style-type: none"> - GAO concurs with this proposal. | regulations | Revenue Customs and Excise |
| Total 3 year savings | | <u><u>\$164.2 billion</u></u> | <u><u>\$31.8 billion</u></u> | | | Canada - |

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